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Small business 80% of computer industry

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Every industry has its inside jokes about absurd ideas that somehow hit the marketplace. Take the one about the wizard who developed a computer to translate English into Russian and Russian into English.

He was banking on an international market, but found that his only potential customer was the Central Intelligence Agency. After approaching the agency, he discovered the CIA already had designed its own version.

His harebrained scheme is not typical of the innovation and invention characteristic of small businesses that have made computers a \$10 billion industry, says Bernard Goldstein, president of the Association of Data Processing Service Organizations.

Although the idea might have been innovative, it lacked substance, he said. In technological industries such as the computer field, an idea either makes or breaks the business, he said.

Goldstein was in Houston Monday as the keynote speaker at the organization's 52nd management conference, running through Wednesday at the Galleria Plaza Hotel. ADPSO is comprised of 400 computer-related information products and services companies.

Goldstein said about 80 percent of the computer industry is made up of small businesses with annual revenues less than \$2 million.

The mortality rate of the computer service industry reflects that of other

businesses. About 30 percent of all industries fail the first year; 50 percent go bankrupt within two years; only 20 percent survive the first five years of business. Those statistics translate into the demise of about 400,000 businesses each year, Goldstein said.

Despite the dismal mortality rate of small business, however, the larger companies are inclined to stifle the innovation and invention that are the basis of a small company's success, Goldstein said.

Large companies "create a superstructure that makes innovation impossible. The risk taker is rarely rewarded," he said. The corporate value system invariably rewards the professional manager for taking as few few risks as possible "by making a religion of long-range planning."

Small companies produce four times as many innovations per research dollar as moderate-size firms and 24 times as many innovations per research dollar as large firms, Goldstein said.

Meanwhile, however, small business accounts for 43 percent of the gross national product and employs nearly 60 percent of the nation's workers, he said.

Goldstein, a computer services merger and acquisition consultant based in New Jersey, said small businesses "are where most of the innovations in American industry begin, long before the bigger corporations buy up the ones that succeed."

The services are the "illegitimate chil-

dren sired by the monopoly pricing" of International Business Machines Corp., Goldstein said.

"The first wave of entry into this new industry was made up of old-line tabulating men, perhaps too neurotic to work for someone else at that point in their lives. They tended to be self-capitalized, and hence, undercapitalized."

"The first group was basically conservative, technically oriented operators with reasonably modest horizons," Goldstein said.

The second wave was usually former salesmen for IBM "which is probably the worst place to learn how to run a small business," he said. Before they went broke, however, they invariably pumped too much capital into fees for public relations and interior decorators, he said.

The "shadow" of IBM continues to lurk on the horizon of the industry's future, he said. Even though a 1956 consent decree splintered IBM's price fixing monopoly on the market, he said, "10 to 12 major companies, each of whose revenues will exceed \$500 million, will share 50 percent to 60 percent of the market."

But the remainder of the computer services industry will be comprised of "medium and small firms serving regional or highly specialized markets," he said. "Piece by piece, small business built this industry, and is still building it — despite the frustration and anger from seemingly endless red tape that inflates their costs and taxes their initiative."